**1992 Option Grants**

| Name | No. of Shares for Which Options Granted | % of Total Shares for Which Options Granted to Employees | Exercise Price | Expiration Date | Grant Date Present Value(1)(2) |
|---|---|---|---|---|---|
| Michael A. Miles (3) | | | | | |
| | | REDACTED | | | |
| William Murray | | | | | |
| Geoffrey C. Bible | | | | | |
| Richard P. Mayer | | | | | |
| Hans G. Storr | | | | | |

(1) Options are not usually exercisable until one year after the date of grant.

(2) Grant date present value is determined using the Black-Scholes Model. The Black-Scholes Model is a complicated mathematical formula widely used to value exchange traded options. However, stock options granted by the Company to its executives differ from exchange traded options in three key respects: options granted by the Company to its executives are long-term, non-transferable and subject to vesting restrictions while exchange traded options are short-term and can be exercised or sold immediately in a liquid market. In this presentation, the Black-Scholes Model has been adapted to estimate the present value of the options set forth in the table, taking into consideration a number of factors, including the volatility of the Common Stock, its dividend rate, the term of the option and interest rates. Consequently, because the Black-Scholes Model is adapted to value the options set forth in the table and is assumption-based, it may not accurately determine present value. The actual value, if any, an optionee will realize will depend on the excess of the market value of the Common Stock over the exercise price on the date the option is exercised.

(3) The option granted to Mr. Miles for 400,000 shares provided for an above-market exercise price of $100.00. (See the discussion on page 11.) The fair market value of the Common Stock on the date of grant was $76.75.

**Option Exercises and Year End Value**

| Name | Number of Shares Acquired on Exercise | Value Realized | Total Number of Shares for Which Unexercised Options Held at December 31, 1992 | | Total Value of Unexercised, In-the-Money Options Held at December 31, 1992(1) | |
|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Michael A. Miles | | | | | | |
| William Murray | | | | REDACTED | | |
| Geoffrey Bible | | | | | | |
| Richard P. Mayer | | | | | | |
| Hans G. Storr | | | | | | |

(1) Based on the closing price of the Common Stock on December 31, 1992, $77.125.

**Philip Morris Pension Plan.** The Company maintains a non-contributory retirement plan (the "Retirement Plan") for the benefit of certain employees. The Retirement Plan provides for fixed retirement benefits in relation to the participant's years of accredited service, five-year average compensation (the highest average annual salary during any period of five consecutive years out of the ten years preceding retirement) and applicable social security covered compensation amount. Allowances are payable upon retirement at the normal retirement age and at earlier ages. "Compensation" is defined as base



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pay plus overtime and the full amount of any annual incentive awards under The Philip Morris 1992 Incentive Compensation and Stock Option Plan.

Examples of annual retirement allowances payable under the Retirement Plan are set forth in the following table. The examples, which assume retirement at the normal retirement age of 65, are based upon the social security covered compensation amount in effect for an employee attaining age 65 in calendar year 1993.

A participant with more than 35 years of accredited service is limited to the greater of a full retirement allowance based upon 35 years of service and five-year average compensation, including annual incentive awards, or a full retirement allowance based on all service and five-year average compensation, excluding such awards.

| Five-Year Average Compensation | Years of Service (1) | | | | |
|---|---|---|---|---|---|
| | 5 | 10 | 20 | 30 | 35 |
| $ 500,000 | $ 43,409 | $ 86,819 | $173,637 | $ 260,456 | $ 303,865 |
| 750,000 | 65,284 | 130,569 | 261,137 | 391,706 | 456,990 |
| 1,000,000 | 87,159 | 174,319 | 348,637 | 522,956 | 610,115 |
| 1,250,000 | 109,034 | 218,069 | 436,137 | 654,206 | 763,240 |
| 1,500,000 | 130,909 | 261,819 | 523,637 | 785,456 | 916,365 |
| 1,750,000 | 152,784 | 305,569 | 611,137 | 916,706 | 1,069,490 |
| 2,000,000 | 174,659 | 349,319 | 698,637 | 1,047,956 | 1,222,615 |
| 2,500,000 | 218,409 | 436,819 | 873,637 | 1,310,456 | 1,528,865 |

(1) At February 1, 1993, Messrs. Miles, Murray, Bible and Storr had R R . Reference is made to the material appearing under the caption "Kraft General Foods Retirement Plan" for additional information.

**Kraft General Foods Retirement Plan.** Messrs. Miles, Bible and Mayer will be eligible for benefits under or participate in the Kraft General Foods Retirement Plan (the "KGF Retirement Plan") which provides for fixed retirement benefits in relation to the participant's years of service, five-year average compensation (the highest average annual salary during any period of five consecutive years out of the ten years preceding retirement) and applicable social security covered compensation amount. The fixed retirement benefit is also dependent upon the periods of service prior to January 1, 1989 in which the participant elected to make contributions.

Examples of annual pension benefits payable under the KGF Retirement Plan are set forth in the following table. The examples, which assume retirement at age 62 or later, are based on the social security covered compensation amount in effect for an employee attaining age 65 in calendar year 1993. Since participant contributions could be substantial in individual cases, the benefit amounts shown in the table may be attributable in certain instances to participant contributions to a significant degree, depending upon retirement date and years of service.



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| Five-Year Average Compensation | Years of Service (1) | | | | |
|---|---|---|---|---|---|
| | 5 | 10 | 20 | 30 | 35 |
| $ 500,000 | $ 41,839 | $ 83,678 | $167,358 | $ 251,036 | $ 263,536 |
| 750,000 | 62,777 | 125,554 | 251,108 | 376,661 | 395,411 |
| 1,000,000 | 83,714 | 167,429 | 334,858 | 502,286 | 527,286 |
| 1,250,000 | 104,652 | 209,304 | 418,608 | 627,911 | 659,161 |
| 1,500,000 | 125,589 | 251,179 | 502,358 | 753,536 | 791,036 |
| 1,750,000 | 146,527 | 293,054 | 586,108 | 879,161 | 922,911 |
| 2,000,000 | 167,464 | 334,929 | 669,858 | 1,004,786 | 1,054,786 |
| 2,500,000 | 209,339 | 418,679 | 837,358 | 1,256,036 | 1,318,536 |

(1) At February 1, 1993, Messrs. Miles, Bible and Mayer had

**Certain Agreements.** The Company has entered into change in control employment agreements with each of its officer-directors and each of the other executive officers named in the Summary Compensation Table. The agreements provide that, if the executive is terminated other than for cause within three years after a change in control of the Company or if the executive terminates his or her employment for good reason within such three-year period or voluntarily during the thirty-day period following the first anniversary of the change in control, the executive is entitled to receive a lump sum severance payment equal to two and one-half times the sum of his base salary and highest annual bonus, together with certain other payments and benefits, including continuation of employee welfare benefits. An additional payment is required to compensate the executive for excise taxes imposed upon payments under the agreements. Mr. Miles has entered into an employment agreement with the Company which provides that in the event of involuntary termination of employment without cause, he will be entitled to a lump sum cash payment based upon his then current base salary and most recent applicable annual incentive compensation award or a payment pursuant to the severance plan or policy applicable to him, whichever is greater.

## SELECTION OF AUDITORS

The Audit Committee has recommended to the Board that Coopers & Lybrand, which firm has been the independent accountants of the Company since 1933, be continued as auditors for the Company. The stockholders are being asked to approve the Board's decision to retain Coopers & Lybrand for the fiscal year ending December 31, 1993. A representative of Coopers & Lybrand is expected to be present at the meeting. The representative will be given an opportunity to make a statement if he or she desires to do so and will be available to answer questions.

**The Board recommends a vote FOR.**

## STOCKHOLDER PROPOSALS

### PROPOSAL 1

Dr. Gregory N. Connolly, 399 Common Street, Belmont, Massachusetts 02178, who claims beneficial ownership of 60 shares of Common Stock, together with four co-proponents, has submitted the proposal set forth below. The names, addresses and shareholdings of the co-proponents will be furnished upon request to the Secretary of the Company.



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**Monitoring and Adherence to the Voluntary Code of Cigarette Advertising**

WHEREAS: Our Company has adopted a voluntary code not to directly or indirectly represent smoking as essential to social distinction, prominence, success or sexual attraction; not to associate smoking with vigorous physical activity or athletic conditioning; not to use models who appear to be under age 25; not to suggest that the models' appearance and good health are due to smoking; not to use testimonials from athletes or celebrities who have special appeal to youth; and not to make representations regarding health unless based on scientific data;

WHEREAS: Federal legislation was proposed in the 101st Congress mandating compliance with the code;

RESOLVED that stockholders request that a Review Committee composed of our Company's outside directors and as many experts without any ties to our Company be established. This Committee shall report to the Board and stockholders by September 1, 1993 its findings regarding:

1. Consumer perceptions of our advertisements, including but not limited to:
   a. If children perceive models in brands popular with them to be under 25;
   b. If women perceive that the models in women's brands portray smoking as a way to be thin and beautiful;
   c. If smokers perceive that cigarettes advertised with "low tar and nicotine" actually reduce health risks.

2. What policies and practices our Company might adopt to ensure adherence to the Code, especially by:
   a. Not depicting individuals to appear to be under the age of 25 because of their looks, dress, or activities in which they are engaged;
   b. Not depicting any individual participating in or just having participated in a physical activity, including tennis, auto racing, basketball, sky diving, baseball, football, swimming, sailing or similar activities;
   c. Not advertising in magazines or sponsoring events with more than 25% readership or attendance by minors;
   d. Not including in advertisements anyone who is, or has been, known as an athlete (including race car drivers), celebrity, singer, and any others having special appeal to persons under 21;
   e. Not using models whose appearance suggests that smoking women's brands will make smokers thin or beautiful, or directly or indirectly imply that low tar/nicotine cigarettes will reduce health risks associated with smoking regular brands;
   f. Abiding by the Code internationally and not advertising nontobacco products with the same brand name as our cigarettes which circumvent laws banning or severely restricting cigarette advertising;
   g. Including within the term "advertising" promotions, point of purchase materials, sponsored events, televised sport sponsorships and movie product placements.

The Code of Advertising was issued in April 1964. An enforcement mechanism was abolished in 1970. If you feel the Company should demonstrate if its marketing of cigarettes conforms to its own Code of Advertising, vote "yes" to this resolution.

**The Board recommends a vote AGAINST this proposal.**

At last year's annual meeting, the identical proposal was defeated with 93.4% of the shares voting, voting against.

Philip Morris USA scrupulously adheres to the Cigarette Advertising Code, first adopted by the industry in 1964 and revised in 1990. Philip Morris USA's advertising does not violate the Code. Cigarette advertising and marketing practices are reviewed by legal counsel to insure compliance with the Code



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as well as legal restrictions. Your Board believes that any further review procedure would be both duplicative and costly. Furthermore, it is highly doubtful that a reliable scientific method exists to measure consumer perception of cigarette advertisements as requested by proponent.

**Therefore, your Board urges stockholders to vote AGAINST this proposal.**

## PROPOSAL 2

The Province of St. Joseph of the Capuchin order, 1015 North Ninth Street, Milwaukee, Wisconsin 53233, which claims beneficial ownership of 7,160 shares of Common Stock, together with five co-proponents, has submitted the proposal set forth below. The names, addresses and shareholdings of the co-proponents will be furnished upon request to the Secretary of the Company.

### Global Warnings on All Forms of Marketing Related to Cigarettes

WHEREAS, our Company actively pursues customers for its cigarettes by spending hundreds of millions of dollars around the world in advertising and promotions. These include:

1. direct advertising, wherever allowed, on billboards, magazines, newspapers, bus signs, placards and television;

2. direct product promotion through sponsorship of events and promotional items bearing our Company's cigarette logos and symbols, from clothing to watches. We believe that many of these are popular with children.

WHEREAS, as various countries enact bans on direct advertising, we believe that cigarette companies have shifted their advertising dollars into other ways of promoting the images and symbols connected to their cigarette logos. For example, during a telecast of a Marlboro Grand Prix auto race, the Marlboro logo appeared an alarming number of times. While we believe this may represent free advertising and promotion of our Company's brands, in our view, it also invites young people and consumers uninformed as to the health hazards connected to smoking to use our brands;

WHEREAS, when our logos have appeared in many promotional activities, many do not bear any warnings related to health hazards connected to smoking.

WHEREAS, the Federal Trade Commission has required smokeless tobacco companies to place warnings on their promotional items.

BE IT RESOLVED that the shareholders request the Board to adopt the following policy to be put into effect by January 1, 1994: all advertising and promotional items for our Company's tobacco products distributed throughout the world shall include health warnings about the dangers of addiction, disease, and death due to smoking.

### SUPPORTING STATEMENT

On the one hand, our Company says smoking is an adult custom and that it tries to "discourage" children from smoking. Yet, on the other hand, we believe it encourages youngsters to smoke by sponsoring forms of entertainment and sporting events where symbols and logos connected to our Company's brands invade their consciousness with no parallel warnings about the health hazards connected to smoking. We believe there should be warnings wherever our ads and promotions appear; they should be at least as easily readable and colorful and appealing to the eye as the image or symbol connected to our logo.



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We believe warnings should be placed on any ads or promotional symbols connected to our cigarettes because it may be argued that these lead people to use our products to the detriment of their health.

Last year our Company voluntarily placed health warnings on all cigarette packages sold throughout the world, even though not required by law. We believe this is the logical next step. If you agree, please support this resolution.

**The Board recommends a vote AGAINST this proposal.**

Your Company is totally committed to marketing its cigarettes responsibly and in this connection, does not direct its cigarette advertising and promotions towards under-aged consumers. Philip Morris International recently adopted a Cigarette Marketing Code detailing steps which will ensure that this policy is implemented in every country where its cigarettes are marketed. Subsidiaries of Philip Morris International also agree to comply with industry marketing codes in the particular markets in which they compete. These codes similarly seek to ensure that cigarettes are not advertised or promoted towards under-aged consumers.

The Company believes that there exists an awareness throughout the world of the health issues involved with smoking and this awareness is enhanced by the warning which appears on every cigarette pack which the Company makes. The Company does not oppose reasonable proposals for cautionary notices in its advertising. It believes such notices should be agreed on a market-by-market basis with government and other members of the industry.

The cigarette market around the world is extremely competitive. The Company competes not only with American companies but with companies headquartered in other countries and, in many markets, the Company's principal competitor is a manufacturing monopoly owned by the State. If the Company were to opt unilaterally to include a warning in all of its advertising, it is unlikely that its competitors would follow. Inclusion of the warning in the Company's advertisements could then be prejudicial to the Company's competitive position.

**Therefore, your Board urges stockholders to vote AGAINST this proposal.**

## PROPOSAL 3

The Teamsters Medicare Trust for Retired Employees and the Teamsters Negotiated Pension Plan, both of Union Plaza, 300 South Grand Boulevard, St. Louis, Missouri 63103, claiming beneficial ownership of 320 shares and 7,970 shares, respectively, of Common Stock, have submitted the proposal set forth below.

Resolved: That the shareholders of Philip Morris Companies Inc. hereby request the Board of Directors to redeem the shareholder rights issued in 1989 unless the issue is approved by the affirmative vote of a majority of the outstanding shares at a meeting of the shareholders held as soon as possible.

## SUPPORTING STATEMENT

In 1989, the Board of Directors issued a dividend of one common stock purchase right for each outstanding share of Common Stock. Under the terms of the rights agreement, each right entitles shareholders to purchase, under certain conditions, either one share of Common Stock for each right, Common Stock with twice the market value of the rights' exercise price, or shares of any acquiring company worth twice the exercise price. These rights will only be exercisable if a person or persons obtains or seeks to obtain beneficial ownership of at least 10% of the Company's Common Stock. The



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10% holder cannot exercise its rights. The Company is entitled to redeem the rights at a price of $.01 per right at any time until there is an acquiring person, and the plan will expire on October 25, 1999.

This rights dividend is more commonly known as a poison pill plan with flip-in and flip-over characteristics. We believe such plans tend to entrench management and depress companies' stock price. The Board created this plan unilaterally, without consulting shareholders. This proposal attempts to give shareholders an opportunity to express their views on the rights issue and the method by which it was adopted.

Poison pills have become increasingly unpopular in recent years. Since the beginning of 1990, Time Warner, United Technologies, La Quinta Inns, and Lockheed have voluntarily redeemed their poison pills. Since 1990, a majority of voting shareholders at 19 companies asked management to either repeal, redeem or allow a shareholder vote on poison pills, including K Mart, Browning-Ferris, Avon Products and USX.

The effects of poison pill rights plans on the trading value of companies' stock have been the subject of extensive research. A 1986 study by the Office of the Chief Economist of the U.S. Securities and Exchange Commission on the economics of poison pill rights plans found that the adoption of poison pills caused companies' stock prices to drop. A 1988 study by Professor Michael Ryngaert, one of the authors of the 1986 SEC study, singled out rights plans like Philip Morris' with discriminatory flip-in provisions for their negative effect on shareholder value. That study found "restrictive pills can have a negative price impact even when active takeover speculation is not present." A 1992 study by Professor John Pound of Harvard's Corporate Voting Research Project and Lilli A. Gordon of the Gordon Group, found a correlation between high corporate performance and the absence of poison pills.

Consequently, we believe the unilateral adoption of this poison pill plan by the Board is out of keeping with our Company's broader relationship with its shareholders and is likely to have had a negative effect on shareholder value. Therefore, we urge a vote in favor of the resolution.

**The Board recommends a vote AGAINST this proposal.**

The Company's Common Share Purchase Rights (the "Rights") encourage potential acquirors to negotiate directly with the Board, which the Company believes is in the best position to negotiate on behalf of all stockholders, evaluate the adequacy of any potential offer and protect stockholders against potential abuses during the takeover process, including certain practices which do not treat all stockholders fairly and equally. The Rights will allow the Board adequate time and flexibility to negotiate on behalf of the stockholders and will enhance the Board's ability to negotiate the highest possible bid from a potential acquiror and to develop alternatives which may better maximize stockholder interests, preserve the long-term value of the Company for the stockholders and ensure that all stockholders are treated fairly and equally.

The Rights are not intended to prevent a takeover pursuant to an offer which is fair and equitable to all stockholders. The Board may redeem the Rights to permit an acquisition that it determines adequately reflects the value of the Company and to be in the best interests of all stockholders.

The resolution refers to two studies regarding the effect of rights plans on the trading value of the adopting companies' stock. **However, the performance graph on page 12 of this proxy statement clearly contradicts those studies.** In addition, March and October 1988 studies by Georgeson & Company Inc., a nationally recognized proxy solicitation and investor relations firm, found that companies adopting rights plans do not lessen the value of their stock and, more importantly, that companies with rights plans received higher takeover premiums than those companies without rights plans. The March 1988 Georgeson study concluded that companies with rights plans received takeover premiums averaging 69% higher than those received by companies not protected by such plans.



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The Board specifically examined its fiduciary responsibilities under Virginia law when it issued the Rights in 1989. The Board has a fiduciary obligation to the stockholders to evaluate the merit of any unsolicited offer to acquire the Company and recognizes that such fiduciary obligation would be violated if, as the resolution suggests, the Board used the Rights as a device to entrench existing management without regard to the merits of the offer being made.

The Board does not believe that the Rights will deter an acquisition offer that adequately reflects the underlying value of the Company and that is fair to all stockholders. The Board believes that the redemption of the Rights at the present time would deprive the Board of a key negotiation tool that is invaluable in preserving the long-term value of the Company and protecting all stockholders from coercive and unfair takeover attempts.

**Therefore, your Board urges stockholders to vote AGAINST this proposal.**

## OTHER MATTERS

Management knows of no other business which will be presented to the meeting. If other matters properly come before the meeting, the persons named as proxies will vote on them in accordance with their best judgment.

The cost of this solicitation of proxies will be borne by the Company. In addition to the use of the mails, some of the officers and regular employees of the Company may solicit proxies by telephone and telegraph and request brokerage houses, banks and other custodians, nominees and fiduciaries to forward soliciting material to the beneficial owners of Common Stock held of record by such persons. The Company will reimburse such persons for expenses incurred in forwarding such soliciting material. It is contemplated that additional solicitation of proxies will be made in the same manner under the engagement and direction of D.F. King & Co., Inc., 77 Water Street, New York, NY 10005, at an anticipated cost to the Company of $20,000, plus reimbursement of out-of-pocket expenses.

## 1994 ANNUAL MEETING

Stockholders wishing to suggest candidates to the Nominating Committee for consideration as directors may submit names and biographical data to the Secretary of the Company.

The Company's By-Laws prescribe the procedures a stockholder must follow to nominate directors or to bring other business before stockholder meetings. For a stockholder to nominate a candidate for director at the 1994 Annual Meeting, presently anticipated to be held April 21, 1994, notice of the nomination must be received by the Company between October 12 and November 11, 1993. The notice must describe various matters regarding the nominee, including the name, address, occupation and shares held. For a stockholder to bring other matters before the 1994 Annual Meeting, as well as having such matters included in the Company's proxy statement and proxy for that meeting, notice must be received by the Company within the time limits described above. The notice must include a description of the proposed business, the reasons therefor and other specified matters. In each case the notice must be given to the Secretary of the Company, whose address is 120 Park Avenue, New York, NY 10017. Any stockholder desiring a copy of the Company's By-Laws will be furnished one without charge upon written request to the Secretary.

Dede Thompson Bartlett
*Vice President and Secretary*

March 11, 1993



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